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31 January 1961

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CENTRAL INTELLIGENCE BULLETIN



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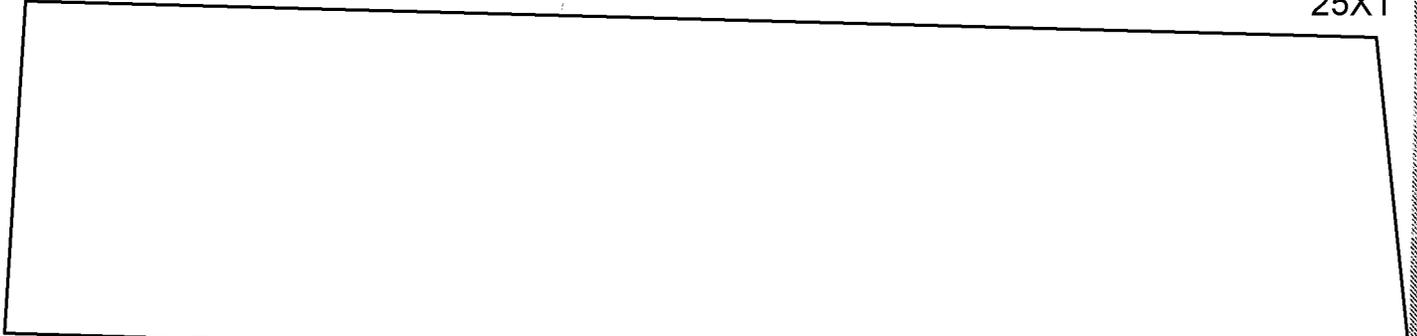
3. High Chinese Communist officials reiterate Peiping's opposition to "two-Chinas" solution for Taiwan. (*Page ii*)
4. Japan interested in improved relations and more trade with Communist China. (*Page iii*)
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7. New Brazilian cabinet has generally conservative complexion. (*Page iv*)



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Communist/China: Communist China's leaders have seized a number of opportunities to register anew their unyielding opposition to any "two Chinas" solution for the problem of Taiwan. Both Chou En-lai and Chen Yi, the regime's top foreign policy officials, used recent press interviews to emphasize Peiping's hostility to such an arrangement.

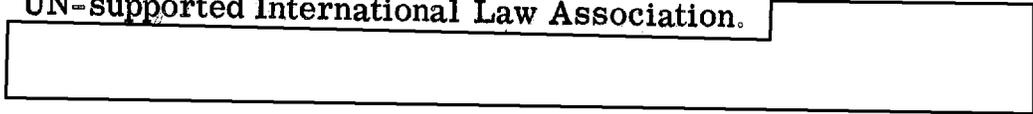
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This flurry of expressed opposition may reflect a growing concern in Peiping over the possibility that world sentiment is developing in favor of solving the Taiwan problem by giving some sort of separate international status to the Chinese Nationalists on Taiwan. By re-emphasizing their antipathy to such a solution-- which is shared by Taipei--the Chinese Communists seem to be trying to head off efforts in this direction.

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The authorities in Peiping regard the US as the prime mover behind the "two Chinas" solution and have insisted that the US must withdraw military support from Chiang Kai-shek before any improvement of Sino-US relations could take place. The Chinese Communists also insist they will not change their stand in exchange for UN membership. They have refused to sit in any international gathering along with Chiang's representatives and for this reason have already withdrawn from several, such as the UN-supported International Law Association.



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Japan - Communist China: Prime Minister Ikeda's statement in a policy speech to the Diet on 30 January that his government will seek improved relations with Communist China this year reflects an effort to appear flexible on this issue. This will lend encouragement to recent steps which have been taken in both countries to end the impasse which has obtained since trade was broken off in May 1958. However, Ikeda indicated that a rapprochement must not affect existing conditions in the Far East. Japan is concerned over its vulnerability to international economic conditions, and its primary objective is increased trade; Peiping's motivation is principally political. Ikeda's stipulation that Tokyo cannot extend formal recognition to Communist China unless there is greater international acceptance of Peiping, however, reveals one of his principal problems--how to satisfy growing pressures within Japan for friendly ties with the China mainland without jeopardizing Japan's relations with the United States. [redacted]

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Mongolia-Mali: Mongolia and the Republic of Mali have agreed to establish diplomatic relations at the ambassadorial level, according to press reports from Ulan Bator on 25 January. Mali is the fifth nation to recognize Mongolia in the past year, following Guinea, Cambodia, Nepal, and Cuba. India, Burma, Indonesia, Yugoslavia, and all Communist bloc countries also maintain diplomatic relations with Mongolia. Like the other Asian Communist regimes, Mongolia is particularly eager to gain recognition from the new African republics and Asian neutrals who might be expected to support its bid for UN membership. Mali's agreement to diplomatic ties with Mongolia provides an indication that Mali's "positive neutralism" may be taking on a pro-bloc flavor. [redacted]

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Cyprus: Economic and political problems are multiplying for the government of the Independent Republic of [redacted]

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Cyprus. A three-year drought has seriously reduced grain production, while general economic stagnation since the proclamation of the republic in August 1960 has led to widespread unemployment. An ably led Communist party continues to increase its strength, and the Communist-dominated labor federation remains the only effective labor organization on the island. According to the US Embassy in Nicosia, President Makarios' party is weakened by lack of organization, and some former EOKA underground fighters are turning against his moderate leadership. Disputes over implementation of the six-month-old Cyprus settlement continue to foster distrust and ill will between the Greek Cypriot majority and Turkish Cypriot minority. [REDACTED] (Page 6)

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*Brazil: Janio Quadros, who becomes president today, has announced a cabinet which US Ambassador Cabot characterizes as chosen largely with a view to ensuring political support in congress but including unusually able men in several key posts. The pro-US foreign minister-designate, Afonso Arinos, has been chairman of the Senate Foreign Relations Committee. Finance Minister - Designate Mariani, who will shortly be faced with a balance-of-payments crisis, is a strong personality capable of pushing needed economic reforms. The cabinet is generally conservative, and some pro-Quadros circles have criticized it as too conservative to accomplish the changes in Brazilian policy which they look for. [REDACTED] (Page 8)

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Japan Seeks Closer Relations With Communist China

Japanese Prime Minister Hayato Ikeda believes that the China question will be Japan's foremost international problem in 1961. Although apparently developing a program to promote friendlier ties with Communist China, the prime minister has stipulated that formal recognition must await a "general adjustment of East-West relations."

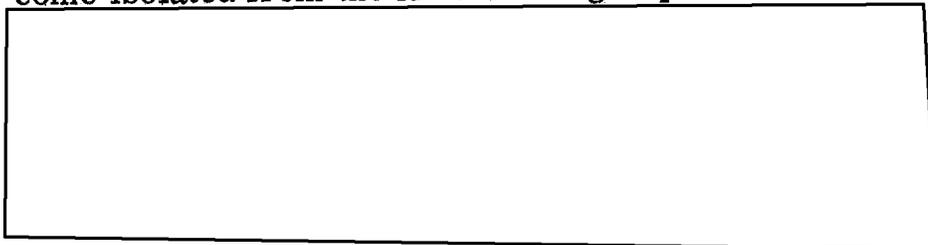
In May 1958, after gradually improving relations had led to a total trade level of approximately \$120,000,000 in 1957, the Kishi government refused to grant official sanction for the Chinese Communists to fly their national flag over a proposed trade mission in Tokyo. Peiping retaliated by breaking off trade relations, including several long-term contracts for exchanging Chinese industrial raw materials for Japanese industrial machinery and products, and refused to resume them unless Japan made political concessions.

In recent months, both Tokyo and Peiping have relaxed their positions without, however, making substantive concessions. Following the resignation of the Kishi government last July, Peiping lifted its total ban on trade with Japan to permit the export of small quantities of highly specialized foodstuffs desired by the Japanese, in the apparent hope of stimulating pressures for the new Ikeda government to honor the "three principles" Peiping still insists on. These are: ending Japan's hostile policy toward China; noncollaboration with the "US plot to create two Chinas"; and severance of relations with Taiwan and recognition of Communist China.

Subsequently, there have been exchanges of various labor, economic, and nonofficial political missions, and in the past six weeks the Chinese have inquired about an exchange of "important goods"--Japanese steel, heavy machinery, and vessels, for Chinese soybeans, pig iron, and coal. These inquiries are probably intended to encourage Japanese elements interested in trade with the mainland to step up their pressures on Ikeda for concessions. That the basic Chinese motivation continues to be political is suggested by Peiping's refusal in mid-January to discuss Ikeda's proposal for postal, meteorological, and other technical agreements unless a Japanese

cabinet minister is dispatched to Peiping for the purpose.

Recent US measures to conserve dollars have aroused new concern in Japan about its need for expanded export markets to maintain the present standard of living for a growing population. In addition, Tokyo is reviewing its position on the question of UN membership for Communist China in order not to become isolated from the Afro-Asian group of nations.



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Cyprus Faces Economic and Political Problems

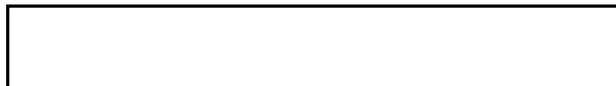
The Cyprus government, under the leadership of Greek Cypriot President Makarios and Turkish Cypriot Vice President Fazil Kuchuk, continues to look to the West for friendship and guidance, but growing problems appear to be undermining its popular support.

The recent arrival of the first relief shipment of some 50,000 tons of wheat and barley from the US, supplied under Title II of PL-480, received favorable publicity but is recognized locally as only a stopgap measure in alleviating shortages caused by the prolonged drought. The government, unable to find markets for Cypriot raisins in the West, concluded a barter agreement with the USSR in early December under which the Soviet Union will take 8,000 tons of raisins in exchange for cement, lumber, and other products. Tourism--which was anticipated before independence as a source of foreign exchange --has not come up to expectations.

In the Greek Cypriot community, Makarios retains much of his great popularity, but his own political party, the Patriotic Front, suffers from a dearth of second-echelon leaders. The well-organized Communist-dominated Regenerative Party of the Working People (AKEL), which probably can count on the support of 35 percent of the electorate, continues to gain followers. At present, its leaders appear content to follow a program of "peaceful coexistence" with the Patriotic Front while developing new support from the government's inevitable errors. The Communists have been further strengthened by the recent arrival of the first Soviet ambassador to Cyprus, who is in a position to give guidance to local party leaders.

The situation in organized labor is deteriorating. The Communist-led pan-Cyprian Federation of Labor (PEO) is growing more powerful, while the anti-Communist federation --never a real competitor to PEO--apparently is on the verge of dissolution. Unless action is taken soon to reorganize the right-wing union, the Communists will dominate the entire Greek Cypriot labor movement.

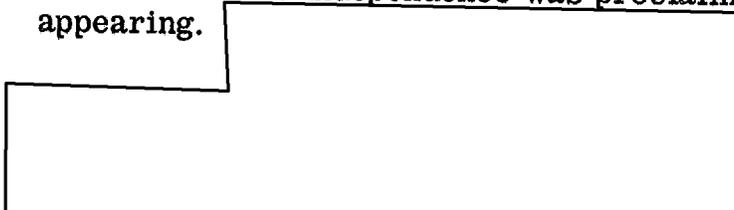
Makarios also faces increasing competition from a group of former members of EOKA, the underground organization



against the British, and others who, disillusioned with the Cyprus settlement, have renewed the call for "enosis"--union of the island with Greece. Occasional acts of terrorism appear traceable to fanatics among this group.

The Turkish Cypriot minority has exhibited signs of a developing cleavage between the moderates, who follow the leadership of Kuchuk, and those who favor a more militant defense of Turkish minority rights. Recent actions of the pro-enosis Greeks have resulted in uneasiness among the Turks and a widespread insistence that the Cyprus agreements be carried out "to the letter." The newspapers supported by each community on the island have adopted highly critical attitudes toward the actions of the other community, and the spirit of mutual toleration between Greek and Turkish Cypriots, which was evident at the time independence was proclaimed, seems to be disappearing.

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The New Brazilian Administration

Janio Quadros maintained complete silence regarding his future government during his three-month visit to Europe after the presidential elections of 3 October, and only on 29 January announced his cabinet appointments. The choices reflect a variety of considerations, including individual abilities and past association with Quadros, as well as geographical factors and the new President's lack of formal ties with any of the several parties of his sponsoring coalition.

Besides Finance Minister Mariani and Foreign Minister Arinos, the outstanding personalities in the cabinet are probably Labor Minister Francisco Carlos de Castro Neves and War Minister Odylia Denys. The new labor minister was Quadros' secretary of government in Sao Paulo and is one of the shrewdest politicians in Quadros' entourage. Marshal Denys was war minister in the Kubitschek administration and was asked to continue in the same post.

Denys reportedly agreed to stay on after Quadros promised him a free hand in removing from the armed forces certain officers he considered unreliable, including pro-Communists and Communist party members. One of Quadros' campaign pledges was to legalize the Communist party--which supported the administration candidate, General Lott, in the October elections--but this pledge would not preclude his support for stronger anti-Communist measures if it suited his purposes.

Initial reaction to the cabinet selections among the pro-quadros press in Rio de Janeiro has been one of strong criticism, with the cabinet termed mediocre, ultraconservative, and incapable of bringing the renovation and regeneration that Quadros supporters had anticipated. Indicative of the radical line some pro-Quadros factions expect of the new President is

[redacted] on what is looked for in the way of foreign policy. [redacted] Quadros' proposals for a "bold new policy" will be published shortly after his inauguration in an anonymous newspaper article written by

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[redacted] Actions proposed in this article allegedly will include: establishment of diplomatic relations with the USSR; a call for "understanding" instead of condemnation of the Cuban revolution; and an expression of hope for better Latin American relations with Washington, but with an insistence that the nature of these relations must be changed.

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[redacted] Quadros will also call for a conference of all nations interested in studying the problems of the underdeveloped nations, inviting countries from the Middle East, Asia, and Africa, as well as from Latin America.

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